RESOLUTION 2013-4

Agenda Item

TO: Mayor and City Council

FROM: Mark Gaugh, City Manager

DATE: January 15, 2013

RE: Working Capital Policy

Issues

I have attached the cash reserve/working capital policy. We have developed a policy with the intent to comply with GASB guidelines, while providing a simple, workable policy for managing reserves. Information for the basic policy was obtained from our auditors, Westbrook & Company, and we had our draft policy reviewed by Danny Marsh, an accountant from Marsh, Espy and Riggs. We established the reserve ranges, based partly on what is "loosely" an industry standard, but also taking into account Cameron's specific needs for cash flow and operational methods.

Some things to keep in mind with this policy-

- It allows us five years to get the fund reserves to the levels described in the policy. We are currently not at the minimum recommended levels of reserves in the Water Fund or Sewer Fund. Our goal will be to get to those levels within a couple of years, but no later than five years from now.
- The reserve levels are **minimum** levels. The specific reserve levels within our 25%-40% range will partly depend on the economic conditions at the time.
- The philosophy behind the policy is to cash-fund at least a portion of capital improvements. This is not so important today, when interest rates are low. But, the goal is to keep debt down where we can, especially for smaller capital improvements. Upcoming large water and wastewater system improvements will not be possible to cash flow.
- Large reserve balances are needed in the utility funds. This is because of the high cost to replace critical infrastructure. While our minimum level is to cover three months of operating expenses, the goal is to maintain a six-month to one-year level of reserves in these funds. This level will fluctuate, partly due to the capital needs at the time. Generally, we maintain a capital needs plan to cover 3-5 years into the future.

Recommendation

Staff recommends that Council adopt the policy by Resolution.

RESOLUTION 2013-4

A RESOLUTION ADOPTING A WORKING CAPITAL POLICY FOR THE CITY OF CAMERON, CLINTON AND DEKALB COUNTIES, MISSOURI

WHEREAS, the City is desirous of maintaining appropriate reserves of working capital to sustain operations; and

WHEREAS, the policy is intended to comply with good accounting practices; and

WHEREAS, the policy will provide consistent direction for maintaining reserve levels, and explains the rationale for same.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Cameron, Clinton and DeKalb Counties, Missouri, as follows:

Section 1. The City Council of the City of Cameron adopts the Working Capital Policy attached hereto and made a part hereof.

Section 2. This Resolution shall become effective upon the date of its adoption.

_____
Mayor Dennis M. Clark

Attest:

_____
City Clerk/Finance Clerk